

May 12, 2005

Mr. Stephen White
President
Frederica Volunteer Fire Company
Frederica, DE 19946

Dear Mr. White:

The Office of Auditor of Accounts has completed its review of the financial transactions relative to the Frederica Volunteer Fire Company bank accounts. The following paragraphs detail the results of our review.

BACKGROUND

On March 28, 2005, the Office of Auditor of Accounts received a request from Mr. Stephen White, President, Frederica Volunteer Fire Company (Fire Company), for assistance in reviewing "serious discrepancies" relative to the accounting of funds within the fire company's bank accounts.

On March 28, 2005 representatives from the Office of Auditor of Accounts (AOA) met with Mr. White, President, Frederica Volunteer Fire Company, to discuss the issues referred to our office.

SCOPE AND METHODOLOGY

Our examination included obtaining and reviewing financial records for the Fire Company for the period January 1, 2004 through March 28, 2005. Interviews were held with the Fire Company's President and former Treasurer.

REVIEW RESULTS

In our initial meeting with the President, we were told that he had discovered that the former Treasurer had written checks to herself from the Fire Company's Merrill Lynch checking account and also had used the Fire Company's Merrill Lynch credit card to obtain cash advances. The President and another Fire Company Officer confronted the former Treasurer regarding the discrepancies and at that time the former Treasurer admitted to taking Fire Company funds. In addition, the former Treasurer stated that she had a gambling problem; she took the money from

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the Fire Company so that her family would not know she was gambling; and that she could repay the Fire Company for any losses.

We reviewed bank statements, cancelled checks, and supporting documentation for the period January 1, 2004 through March 28, 2005, the former Treasurer's tenure in that position. As a result of our review, we found that the former Treasurer wrote 12 checks to herself totaling \$42,190.32, and took two credit card cash advances in the amount of \$2,832.98, resulting in misappropriation of \$45,023.30, from the Fire Company's Merrill Lynch bank account. In addition, our review of deposits to the account identified that the former Treasurer had deposited \$18,643.32 of her personal funds into the Merrill Lynch bank account. Therefore, as of March 28, 2005, the Fire Company's account was missing \$ 26,379.98. Our review of the Fire Company's bank accounts maintained at the Wilmington Trust, Citizens, and Wachovia Banks revealed no discrepancies.

Representatives of the AOA interviewed the former Treasurer on March 31, 2005. During the interview the former Treasurer admitted she wrote checks to herself from the Fire Company's Merrill Lynch account, adding that she knew it was wrong, but she could not stop due to a gambling problem. In addition, she admitted using the Fire Company's credit card to obtain money for gambling, but stated she initially thought she was using her personal card since it was similar to the Fire Company's card.

CONCLUSION

We conclude that:

- The former Treasurer misappropriated **\$45,023.30** of Fire Company funds for personal benefit.
- The former Treasurer repaid the Fire Company **\$18,643.32** from her personal funds.
- The remaining balance of misappropriated funds equals **\$ 26,379.98**.

NOTE: The results of our review were forwarded to the Office of Attorney General for their review and resolution.

INADEQUATE SEGREGATION OF DUTIES

Segregation of duties is a basic, key internal control element. It is used to ensure that errors or irregularities are prevented or detected on a timely basis in the normal course of business. At the most basic level, it means that no single individual should have control over two or more phases of a transaction; thereby, being able to carry out and conceal errors and/or irregularities in the course of performing day-to-day activities.

In those instances where duties cannot be fully segregated, mitigating or compensating controls must be established. For instance, if the record keeper also prepares checks, endorses them, and prepares the annual financial statement, a detailed review and approval process should be performed to ensure the accuracy of payments.

Our review disclosed an inadequate segregation of accounting duties. We found that the former Treasurer performed all phases of the accounting function; such as preparing checks, endorsing checks, receiving and recording revenue, and depositing funds. In addition we found that, although the checks required two signatures, one of the officers pre-signed checks. When we interviewed the former Treasurer she stated that since checks were pre-signed, she was a second signatory, and activity was not monitored, she was able to misappropriate the funds without anyone knowing.

We suggest that the Frederica Volunteer Fire Company ensure that:

1. The practice of pre-signing blank checks is discontinued.
2. The accounting duties are adequately segregated to safeguard fire company assets.
3. An individual not involved in the accounting process routinely monitor the accounting activities to ensure the safeguarding of assets.

An exit conference was held on April 20, 2005 with Mr. Stephen White, President, Frederica Volunteer Fire Department to discuss the findings and recommendations contained in the report. Representing the Office of Auditor of Accounts was Mr. George C. Eilers, CGFM, State Auditor III.

Should you have any questions please contact Mr. Edward L. Watson at 739-4241, extension 117 or me at 739-5055.

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NOTE: On May 9, 2005, the former Treasurer plead guilty to one count felony theft, was sentenced to one year probation, 50 hours of community service, and made full restitution.

Sincerely yours,

OFFICE OF AUDITOR OF ACCOUNTS

R. Thomas Wagner, Jr., CGFM, CFE
Auditor of Accounts

RTW:GCE:EJM

Case Number: 2005-017